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Promoting Tourism As U.S. Foreign Aid: Building On The Promise Of The Caribbean Basin Initiative

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Abstract

Many economists are questioning the role of foreign aid as a development tool. The Caribbean region has received significant amounts of foreign aid but with mixed results. The region confronts daunting development issues, such as declining productivity and employment against the backdrop of a challenging international environment with a high risk of natural disasters. The study argues that tourism is a stable source of growth for the region and has great potential as a mechanism for distributing foreign aid in a market driven approach that may avoid several of the shortcomings of traditional foreign aid. The Caribbean Basin Initiative includes fiscal incentives for U.S. citizens to travel to certain Caribbean countries for the purpose of strengthening their economies and should serve as a model for further study and innovation. This study assesses whether tourism can serve as an approach to delivering U.S. aid to the Caribbean.

Introduction

In recent years, there has been a tremendous focus – from governments, NGOs and individual activists – on the need for providing greater foreign aid to poor countries (Birdsall, Rodrik & Subramaniam 2005). In June of 2005, for example, there was a call from many activist groups at Live 8 concerts around the world to “make poverty history.” In September of that same year, world leaders met to consider the Millennium Development Goals of reducing global poverty and hunger by one-half by 2015. Such a proposal echoes the sentiments expressed by Jeffrey Sachs (Sachs 2005) in his book, *The End of Poverty*, that developed countries can hasten the end of poverty in our time if they would just provide more money to poor countries.

A goal with more enduring effects, however, would be to urge countries to rethink their entire approach to providing economic aid to poor countries. There is much evidence that the current system of providing economic aid to poor countries does not work, and that merely upping the ante will, in the long term, do little to make less developed countries better off (Gwin & Nelson 1997; World Bank 1998; Kanbur, Sandler & Morisson 1999; Easterly 2002; Tarp 2002). Therefore, searching for new and more effective methods of providing aid may prove to be a far more productive endeavor.

The purpose of this study is to reexamine U.S. foreign aid (also referred herein as aid or economic aid) in the context of the Caribbean region and assess whether tourism can serve as a market based approach to delivering aid to the countries of the region. From time to time, tourism has played a small, if unheralded, role in U.S. foreign policy. Tourism was a positive factor in Europe’s recovery in the wake of World War II, and money spent by American travelers in Europe 1949 amounted to more than one-half of all merchandise exports of western European countries to the United States (Grossman 1987 as cited in Goldstone 2001). In the ensuing Cold War, President Eisenhower described U.S. tourists abroad as vital actors in the U.S. battle for world opinion in the Cold War. The U.S. Government also used tourism as a foreign policy tool in attempting to undermine the Cuban regime of Fidel Castro by barring U.S. travel to the island in order to weaken the Cuban economy (Schwartz 1999; Holan & Phillips 1997; Henthorne & Miller 2003).

The United States has been mindful of the other side of the tourism equation as demonstrated in the mid 1960s, when its own balance of payments crisis caused President Johnson to urge Americans to keep

their travel dollars at home. More recently, in the 1980s, the United States again sought a role for tourism in its foreign policy as the U.S. Congress approved the collection of laws commonly referred to as the Caribbean Basin Initiative, which provide, among other things, fiscal incentives for Americans to travel to certain Caribbean countries as a way of strengthening their economies. In this legislation, Congress explicitly recognized the tourism industry "as a central element in the economic development and political stability of the Caribbean Basin region because of the potential that the industry has for increasing employment and foreign exchange earnings, establishing important linkages with other related sectors, and having a positive complementary effect on trade with the United States." (Caribbean Basin Economic Recovery Act 1989; Planisek 1990).

For the purpose of this study the Caribbean region is broadly defined as the collection of small countries in, and adjacent to, the Caribbean Sea, which has a high reliance on international trade, a heavy concentration on one to three exports and a high dependency on a few export markets. These countries suffer growth costs associated with the small size of their domestic markets, making them prone to economic risks and vulnerabilities. In addition, the geographical location of the Caribbean makes these countries subject to the constant threat of natural disasters in the form of hurricanes and tropical storms.

The region is extremely diversified in terms of population and economic development. Table 1 highlights the diversity among the countries of the region: populations range from 46,700 in St. Kitts and Nevis to 11.2 million in Cuba; and average per capita incomes range from US\$400 in Haiti to US\$ 21,212 in Aruba. Economic growth in the Caribbean region (as measured by average growth across countries) was approximately 3 percent in the period from 1980 to 2000 (Escaith 2001). The business cycle of the Caribbean closely follows that of the United States, which underscores the dependence of many of these economies on the U.S. economy.

Table 1 Key indicators for selected countries in the Caribbean, 2004

Country	Population (thousands)	Area SQ KM (thousands)	GDP Current US\$ (millions)	GNI per capita (US\$)
Antigua & Barbuda	79.2 *	0.44	759.3	9,220
Aruba	99	0.19	2100	21,212
Bahamas	314.5	13.88	4960	15,240
Barbados	268.2	0.43	2700	9,345.7 *
Belize	273.7	22.97	1000	3,740
Cuba	11,200	110.9	27,600 *	2,149
Dominica	71.2 *	440	759.3	9,220
Dominican Republic	8,600	48.73	16,500	2,150
Grenada	104.6	0.34	437.4	3,690
Guyana	749	215	741.4	910
Haiti	8,300	27.75	3000	400.0
Jamaica	2,600	10.99	8200	3,090
Neth. Antilles	178.8	0.80	2800	16,552 *
St. Kitts-Nevis	46.7	0.36	369.1	6,980
St. Lucia	160.6	0.62	693.7	4,040
St. Vincent and The Grenadines	117.8	0.39	379.6	3,040
Suriname	443.6	163.3	1000	2,060
Trinidad & Tobago	1,300	5.13	10,500	7,880

Source: World Development Indicators database, April 2006
*2003

This study examines the potential for tourism to serve as a method of distributing foreign aid in a market based approach. In doing so, it first will review the current shortcomings of foreign aid as a developmental tool. It then will examine the challenges facing the Caribbean and the importance of the region for the United States. The study will proceed to assess the potential for tourism as a market based method of disbursing U.S. foreign aid. It also will explain the basis for the strength and stability of tourism as an engine for economic growth. Finally, the study will present its conclusions and suggestions for further

research.

Searching For Solutions

The search for improving foreign aid has many economists reexamining traditional means of delivering economic aid and questioning the assumption that simply providing more aid and resources to poor countries will reduce poverty (World Bank 1998; Kanbur et al. 1999; Easterly 2002; Akram 2003). Indeed there is great concern that the recent commitments of increased aid may only serve to divert much needed attention from developing new and creative methods of disbursing foreign aid (Birdsall et al. 2005).

A review of the literature shows that foreign aid has had few successes over the last 50 years (Graham 1997; Easterly 2003; Birdsall et al. 2005). There are, of course, well known success stories of countries that have “graduated” from being aid recipients, such as Chile, South Korea and Taiwan. It is not clear, however, how much foreign aid contributed to their success. The graduation of these countries may have had more to do with finding their own mix of economic policies – often flouting orthodox policy– that set them firmly on the path of development (Birdsall et al. 2005).

Perhaps the strongest examples of the effectiveness of foreign aid are found when aid has been directed at solving specific problems. For example, donors developed a program to eradicate river-blindness in West Africa with overwhelmingly positive results, including saving an estimated 18 million children from the disease. In addition, there was a successful program that essentially eliminated measles as a threat to children in South Africa (Easterly 2004). Foreign aid also can lay claim to broader economic success stories. For example, some scholars attribute the stabilization of the Polish currency in early 1990s to the \$1 billion fund that allowed Poland to create an exchange-rate stabilization fund (Birdsall et al. 2005). The Marshall Plan, which helped to rebuild the economies of Western Europe after World War II, is cited as one of the greatest success stories of foreign aid. (Birdsall et al. 2005).

Overall, however, it is hard to escape the conclusion that foreign aid has a dismal track record in promoting economic growth. Although some poor countries, as noted above, have managed to graduate from aid dependence, the majority of aid recipients have remained mired in low or no growth economies for decades. Africa leads the list of failures with the following countries having low to negative growth since receiving structural adjustment loans (from 14 to 26 loans each) from the International Monetary fund and the World Bank for the period of 1980 to 1999: Niger, Zambia, Madagascar, Togo, Cote d'Ivoire, Malawi, Mali, Mauritania, Senegal, Kenya, Ghana and Uganda (Easterly 2004). The magnitude of the failure becomes even greater when it is considered that several of these countries also received significant amounts of aid from the United States during the same time period.

The poor track record of foreign aid is easy to delineate. It is far harder, however, to find consensus in the literature for the underlying reasons for such mediocre performance because there are so many factors that may contribute to the problem (Easterly 2004; Birdsall et al. 2005). It is beyond the scope of this paper to analyze such a broad and complex topic as the reasons for the failure of foreign aid. It is possible, however, to identify the main areas of criticism of the current system of disbursing foreign aid.

Critics of the current system of providing economic aid fall into various, sometimes overlapping, camps. One group argues that aid often is provided to countries that lack the capacity, institutions and policies to make effective use of it (Kanbur et al. 1999; Garten 2005). As a consequence, the aid is squandered, or worse, is diverted to the bank accounts of corrupt leaders or their henchmen (Schaefer & Schavey 2002). This gives rise to the paradox that the countries most desperately in need of aid are those least able to use it productively (Birdsall et al. 2005). This group believes that a country's domestic policies of transparency, rule of law and economic freedom are much more important factors in promoting prosperity than the amount of economic aid that is provided (Kanbur et al. 1999; Alesina & Weder 2002).

A second group of detractors contends that aid often is designed to do too much because it seeks wholesale reform of foreign governments and that such overreaching is based on a failure to understand the limitations of a wealthy country's ability to influence economic development in another country (Easterly 2004; Birdsall et al. 2005). This line of criticism contends that aid not only ignores the role of the

developing country itself in devising opportunities and incentives for local investors, but also ignores the role of free choice by individuals in that country in deciding how and when to invest in various economic activities (Easterly 2004). They point to the success of small “demand pull” based aid programs in Africa that get the answer for what type of aid is truly needed by going directly to the people in a bottom up approach (Pearlstein 2005; Easterly 2006).

Third, some critics believe that trade, not aid, is the answer to helping poor countries. They argue that economic aid is destined to fail unless and until the developing countries reduce the inequities in the international trade system, such as imposing high tariffs on the two principal products of most poor countries: agriculture and clothing (Birdsall et al. 2005). This group contends that lower barriers to export from poor countries and increased trade will have larger and more sustainable long term benefits than economic aid (Panitchpakdi 2005; Mallaby 2005).

Slowly, the United States is beginning to make changes in the way it delivers economic aid. It has sought to address the first group of critics by establishing the Millennium Challenge Account (MCA), which restricts aid to only those poor countries capable of meeting certain criteria of good governance, transparency and other sound economic policies (Birdsall et al. 2005). The MCA is a step in the right direction, but it should hardly be considered a major breakthrough for the United States to decide – after four decades – to stop giving economic aid to countries with leaders unwilling to pursue the most basic improvements in their governments and economies, or, worse still, to countries with corrupt leaders, who simply transfer the aid money to their private accounts. Much more innovation is needed, and the MCA should be just the starting point as the United States seeks to improve upon traditional methods of providing foreign aid.

Looking Close to Home: The Caribbean

One geographic area in which the United States should search for new ways of delivering foreign aid is close to home – the Caribbean. This makes sense for three reasons. First, U.S. aid to Caribbean countries has suffered the same drawbacks and failures as has aid to many other countries and regions – it simply has failed to generate significant and sustainable economic growth for the recipient countries. Second, although the Caribbean is a region of immense importance to the United States with critical linkages in trade, immigration, health and security, the United States has failed to exhibit the commensurate or consistent interest in promoting neighbors that are economically and politically strong. Third, the Caribbean’s single most important economic strength – tourism – is an excellent candidate for applying a new, demand pull model of foreign aid that has great promise for overcoming many of the existing flaws in the delivery of foreign aid.

The failure of traditional foreign aid in the Caribbean from various sources is well documented (Easterly 2002). In Haiti, for example, over the last 50 years, the World Bank has supported 41 projects with \$1 billion in loans, and the International Monetary Fund has loaned the country \$150 million over the last twenty years. The United States alone has provided Haiti with \$837.49 million in aid from 1995 to 2003 (Easterly 2002). The results of all this aid have been dismal. From 1995 to 2003, Haiti’s economy managed to slide backward a negative 0.1 percent. More than 80 percent of Haiti’s population still lives in poverty and that figure shows that despite the infusions of aid, poverty actually has increased since 1987 when “only” 65 percent of Haitians were living in poverty (Brunton 2000; Easterly 2002).

Haiti may be the most dramatic example of the failure of U.S. aid to the Caribbean, but there are others (Brunton 2000). During the 1980s, foreign aid accounted for 8 percent of Guyana’s GDP annually, yet its total GDP fell sharply. Jamaica received \$322.5 million in U.S. aid from 1993 to 2003, but its rate of economic growth remained a negative 0.7 percent. The Dominican Republic received \$353.9 million in U.S. aid from 1993 to 2003. It has had some positive years of growth, reaching a high of 7.9 percent in the 1990s, but it has been unable to sustain such growth and now has slipped back into economic growth rates of negative 0.5 and 1.0 percent in 2003 and 2004, respectively.

Not surprisingly, the economic growth of the region has failed to keep pace with the growth in its population, and this shortfall has resulted in unemployment, underemployment and increased poverty (Bryan 2001). According to reports of the Caribbean Development Bank (CDB) and the World Bank

poverty in the Caribbean varies from 5 percent in the Bahamas to 65 percent in Haiti. In between Suriname scores 63 percent, St. Vincent and the Grenadines 37 percent, 35 percent in Guyana, 33 percent in Belize, 32.1 percent in Grenada, 32 percent in Nevis, 30.5 percent in St. Kitts, 25.9 percent in Turks and Caicos Islands, 25.1 percent in St. Lucia, 21.2 percent in Trinidad and Tobago, 16.8 percent in Jamaica, and 13. percent in Barbados (CDB 2000; World Bank 2000; Bourne 2005).

The population in the Caribbean is expected to increase from 34.2 million in 2000 to 41.8 million in 2020 at an estimated average of 1% per year. As the population of the Caribbean region increases, this lack of economic growth and jobs will intensify, and the World Bank estimates that by 2020 the Caribbean will need to create 5.4 million new jobs (World Bank 2000). Meeting this need would require that the Caribbean economies grow at least at the same rate as the worldwide growth of productivity plus 1.75% per year in order to provide sufficient jobs while not losing competitiveness (World Bank 2000). Otherwise it will exacerbate the already high unemployment rate in the region, estimated at an average 14%.

Things may get even worse for the Caribbean. The United States has been decreasing its aid to the region which already has had only limited effectiveness, and it is unclear if this declining trend can be reversed for the long term. In 1985, the United States provided \$458.9 million in aid to the Caribbean, but by 2000 this figure had dropped to \$231.4 million, a decline of 49.6 percent over 18 years (USAID 2004). In the last two years, however, there has been an increase in aid because of HIV/AIDS assistance, hurricane reconstruction assistance and increased support for the interim government in Haiti, but most of this support appears to be episodic rather than ongoing. In addition, the countries of the region continue to see an erosion of two of the three main elements of their economies: offshore financial services and preferential trade treatment of commodities by the European Union (World Bank 2000; Bernal, Bryan & Fauriol 2001).

For decades, the United States and the countries of the Organization for Economic Co-operation and Development have pressured Caribbean nations to stop serving as offshore financial centers and tax havens offering reduced taxes, strict bank secrecy laws and various fiscal incentives because they were subject to money laundering and other abuses (Caruana & Farrugia 2003). Although some Caribbean countries strive to offer a reduced menu of offshore financial services, such services have declined dramatically as a source of revenue, and many countries have given up altogether on the offshore sector (Bryan 2001).

Finally, the countries of the Eastern Caribbean, such as Dominica, St. Lucia, Grenada and St. Kitts and the Grenadines have long received preferential trade treatment of sugar, bananas and other primary commodity products from the European Union (Bernal et al. 2001). The EU, however, plans to phase out such preferred access to its markets by 2006 for bananas and 2009 for sugar, and consequently the beneficiary nations will see a substantial reduction in revenues from the sale of these commodities (Congressional Research Service 2005).

An additional blow to the Caribbean sugar industry is that it is receiving even smaller profit margins because of increased competition from low-cost producers. For example, Sir Alister McIntyre noted that the average cost of producing sugar in the Caribbean was US\$535 per ton compared to US\$266 in the Pacific and US\$340 in Africa; for bananas the average in Jamaica was US\$391, whereas it was US\$291 in Colombia, US\$179 in Costa Rica and US\$161 in Ecuador (McIntyre as cited in Griffith 2002).

Caribbean countries must replace the lost revenues from these two sources by relying on other activities. Tourism is the third engine of economic growth in most countries of the region, and increasingly they are depending on tourism for revenues as the two other sources of revenue decline. Indeed, tourism has achieved remarkable results for the region, but now it must carry an even greater share of the burden of generating growth for the region. Table 2 indicates that for tourism to fulfill its new role of providing for the minimum required economic growth rates, it has to grow an average 3.5 percent per year to a total of 18.3 million additional arrivals in 2020 (base year 1998). This implies that the Caribbean should increase its market share in the global market.

These economic challenges facing the Caribbean are compounded by another threat as the region has one of the highest infection rates of AIDS other than sub-Saharan Africa (PAHO 2005). An estimated 430,000 people in the Caribbean are living with HIV, and according to the Caribbean Epidemiology Center

of the Pan American Health Organization, AIDS is the leading cause of death in the region among adults aged 15 to 44. The Center estimates that the devastation from AIDS will cause eight Caribbean countries to suffer a significant decline in life expectancy.

Table2 Minimum Tourism Growth Rate Targets (Long-stay Visitors) for 2020 for Selected Caribbean Countries

Country	Growth Rate %
Bahamas	3.5
Barbados	2.4
Belize	4.9
Cuba	2.9
Dominican Republic	3.8
Guyana	2.6
Haiti	5.5
Jamaica	3.5
OECS	2.9
Suriname	3.4
Trinidad and Tobago	2.9
TOTAL	3.5
World	2.4

Source: World Bank 2000. Long-stay visitors are those who stay more than twenty four hours at a destination.

It should be natural for the United States to look close to home in its search for improving the delivery of foreign aid because it has vital interests in the Caribbean, although all too often the United States only has focused on the region when a crisis occurs. Because of their small size, Caribbean nations are subject to economic shocks as well as to infiltration and destabilization by drug traffickers, money launderers and other international criminals (Congressional Research Service 2005). When these countries suffer from political and economic strife, their vulnerability increases dramatically.

It is in the U.S. government's interest to help ensure that the Caribbean countries have strong economies and stable democracies. Doing so will reduce the threat to the United States from drug traffickers and other criminals and, potentially, even terrorists (Congressional Research Service 2005). It also will help reduce illegal immigration. Currently, the United States is devoting enormous resources to promote democracy in distant countries, such as Iraq and Afghanistan, which have no history of democracy and which, ultimately, may prove inhospitable to this export. Yet, right next door in the Caribbean, there are numerous proven democracies whose fragile economies need a relatively small amount of assistance so their commitment to democratic principles and the rule of law can continue to overcome the many threats to the region.

By strengthening the Caribbean economies, the United States also will be promoting the prosperity of a large market for U.S. products. The Caribbean (excluding Cuba) is a major market for U.S. goods as there are approximately 35 million inhabitants, who purchase nearly half of all their imports from the United States. U.S. exports to the region totaled \$10.1 billion in 2004 (Congressional Research Service 2005). For most Caribbean countries, the United States had a trade surplus in 2004, but the increase in oil and gas imports from Trinidad and Tobago caused the United States to run a trade deficit of \$2.1 billion for the region overall (Congressional Research Service 2005). The United States exports more to the Caribbean than it does to any of the following countries: Argentina, Brazil, Chile, Italy, Ireland, Israel, and Spain.

Promoting Tourism as Foreign Aid

The United States should address the new challenges facing the Caribbean now rather than wait until the growth rates in the region decline even further. As noted, the current approach for dispensing U.S. aid has not worked well, and the United States is beginning to make changes in its approach, such as the establishment of the MCA. There are many innovative proposals for change, however, and the United States should explore other approaches to providing more effective economic aid.

William Easterly, a former World Bank economist, has written extensively on the shortcomings of foreign

aid, and he has made a number of interesting suggestions which have been receiving substantial attention (Easterly 2002; Easterly 2003; Easterly 2004). He has suggested moving away from broad brush programs that seek to reform governments (Easterly 2004). He also has advocated a focus on programs and approaches that have proven their effectiveness, even if they are limited in scope. In addition, Easterly has argued for bypassing government altogether and basing aid on free choice by individuals backed up by scientific evaluation and cost-benefit analysis (Easterly 2004).

One recent innovation in delivering aid that follows Easterly's advice can be found in the success of small "demand pull" based programs in Africa (Pearlstein 2005). This approach seeks the answer for what aid is truly needed in the country by getting feedback directly from the people for whom the aid is intended rather than relying on the bureaucratic supply-push approach employed by most aid bureaucrats and planners. Along these same lines, Easterly also has proposed the use of vouchers that communities could use to "purchase" the type of development that they themselves have determined is most needed (Wolf 2002).

Many countries of the Caribbean have few natural resources and have had only halting success with efforts to develop a light manufacturing base in textiles and import substitution (Griffith 2002; Lewis-Bynoe, Griffith & Moore 2002). The small size of Caribbean nations has made them ill suited for manufacturing goods because they lack necessary resources and they are subject to high transportation costs for importing and exporting raw materials and finished goods. Yet, despite such limitations and a history of failures, aid programs continue to focus on such diversification efforts and continue to provide aid through a cumbersome and ineffective bureaucratic model.

A modest proposal that may increase the effectiveness of U.S. foreign aid to the Caribbean draws on the suggestion of bypassing government and instead focusing on market forces and a demand pull approach. Such an approach would also play to the known strength of the Caribbean economy and its comparative advantage in the global economy – tourism – rather than continuing to spend aid money in attempts to diversify economies of the region's economies; efforts which has been tried for nearly 20 years with only limited results.

Simply put, the proposal is for the U.S. government to promote the development of tourism in the Caribbean by a variety of means, including where appropriate, providing incentives for its own citizens to travel to the region. A proposal that the U.S. Government should encourage its citizens to travel to designated countries in the Caribbean as an alternative to providing traditional foreign aid may strike many as a fanciful bit of social engineering. Yet, the U.S. Government already does precisely that by providing fiscal incentives to Americans to travel to Caribbean countries in order to attend a business convention, seminar or conference.

Initially enacted by Congress in 1984, and subsequently amended in 1990 and 2002, the legislation collectively referred to as the Caribbean Basin Initiative (CBI) allows Americans to deduct legitimate business expenses incurred in connection with attending a business meeting or convention in a qualifying CBI beneficiary country without regard to the more stringent limitations applicable to deductions associated with foreign conventions (Caribbean Basin Economic Recovery Act 1989; International Trade Administration 2000). To be a qualifying CBI country, a country must have a tax information exchange agreement with the United States and may not have tax laws that discriminate against conventions held in the United States (International Trade Administration 2000).

Congress designed the CBI to stimulate Caribbean economies in hopes of promoting economic and political stability in a region, which had been undergoing significant turmoil in the late 1970s and early 1980s. As noted previously, Congress acknowledged the importance of tourism as a "central element in the economic development and political stability" in the Caribbean because of its potential for generating employment and foreign exchange earnings (Caribbean Basin Economic Recovery Act 1989; Planisek 1990). The CBI also eliminated certain trade barriers between the United States and Caribbean countries and provided limited amounts of aid for infrastructure development.

Unfortunately, there is no empirical evidence that the CBI's tax deduction for attending a conference in a CBI designated country have succeeded in promoting tourism in the Caribbean. At least one scholar, however, has argued that the CBI did not have the "desired impact" in increasing Caribbean tourism

despite the financial incentives provided by the CBI (Planisek 1990). It is difficult to reach a firm conclusion in this area because, according to the U.S. Treasury Department, there is no way to track the number of Americans applying for the deduction (Kushlis 2005).

Some U.S. government agencies do report on the CBI, but they fail to provide any detailed information on the CBI's effect on tourism. For example, the CBI legislation also requires the International Trade Commission (ITC) to prepare reports on the impact of the CBI on the United States, as well as beneficiary countries. The most recent available ITC report was issued in 2003 and focuses exclusively on the trade preference provisions of the CBI. The 2003 ITC report essentially ignores tourism and states only that "Other investment occurring in *nonexport* industries, such as tourism, is consistent with the goals of the [CBI]." (International Trade Commission 2005) (emphasis added).

Not only do the tourism provisions of the CBI merit greater attention than this slim reference, but the statement itself is flawed and shows a lack of understanding of the very nature of the tourism industry. The ITC considers tourism as a "nonexport" industry, but the World Bank, International Monetary Fund, and the World Tourism Organization all consider international tourism (i.e., revenues received from foreign tourists) as an export. Indeed, most countries also consider revenues collected from foreign tourists as an export in their national accounts. Although a country's tourism is offered within its own borders, and therefore is not exported in a physical sense, the money that is spent by visiting tourists nevertheless originates outside the country in the same way that money spent to purchase an export good originates from outside the country.

Congress explicitly recognized the important role that tourism can play in promoting the economies – and thus the political stability – of Caribbean countries, when it designed the CBI over 20 years ago. Yet, the U.S. Government now appears to be ignoring tourism's potential in this regard, or at the very least, failing to follow through on one of the principal premises of the CBI. The ITC's failure to understand the nature of the tourism industry is only one example of the problem.

On October 19, 2005, Daniel Fisk, Deputy Assistant Secretary of State, Bureau of the Western Hemisphere, testified before Congress that continued dependence on tourism was one of the most significant "impediments to growth in Caribbean economies." (Fisk testimony 2005) This statement, however, contradicts both the World Bank and International Monetary Fund, which are advising Caribbean countries to do more to expand their tourism (World Bank 1998; World Bank 2002; MIGA 2005). The U.S. Government fails to understand the role that tourism can play in generating economic growth in poor countries, and thus is ignoring a potentially valuable resource for providing economic aid to these countries based on market forces.

Although the United States does not collect information on the effectiveness of the tourism provisions of the CBI, there is evidence from some of the Caribbean countries themselves that they have benefited from an increase in conventions attended by Americans. Several eligible CBI countries are pursuing the American convention business through their tourism marketing plans (Pesquera 2005)

The United States should explore all possible avenues for building on the fundamental idea set forth in the CBI of encouraging tourism to the Caribbean as a way to promote economic and political stability in the region. The United States is the largest market segment in the Caribbean and accounts for 51 percent of the total visitors to the region. The WTCC estimates the total dollar spent impact of the United States on the region to be US\$20.7 billion in 2004, with a contribution to the regional GDP for 2004 of US\$24.8 billion, which accounted for 14.8 percent of the total regional GDP (WTCC 2004). As more Americans visit the Caribbean, the money they spend will have a substantial impact on the local economy not only because of the money they themselves spend, but also because of the power of the so-called multiplier effect, i.e., the estimate of the number of times a tourist dollar in the economy changes hands within the economy.

The financial impact of a dollar spent in the region extends well beyond what tourists pay directly to businesses and individuals because the recipients of the spending by tourists, in turn, spend the money they receive, and so on with the recipients of this additional spending injecting even further spending in the local economy. The significance of this spending of new money in the local economy is that it creates jobs and income in the community for residents, in addition to expanding the tax base for the government.

Provided the market is free of any unusual restraints, an increase in tourism and the resulting income should stimulate growth in the economy.

Equally important, however, is that the tourism money flowing through these Caribbean economies will be distributed according to market forces, and it will go where individual entrepreneurs and consumers have decided the money can be invested or spent most productively. The money will go to local entrepreneurs who know the economy and know where the best opportunity for growth lies. That opportunity may be providing laundry and transportation services, or perhaps providing higher end services in the legal, financial and accounting fields, or it might involve providing basic goods needed by the tourism industry, such as agricultural products. These individuals will know better than a foreign aid bureaucrat thousands of miles away where to invest, and what is likely to succeed, in their own economies.

This is analogous to the demand-pull approach to disbursing traditional foreign aid, as advocated by Easterly and others. In this case, however, the recipients of "aid" are the entrepreneurs and investors, who are receiving additional tourists and tourist dollars and who are in the best position to determine the most productive use of that "aid." These entrepreneurs have the most at stake as well as the most complete knowledge of local conditions and what will work in their community.

Tourism has great potential as a mechanism for delivering U.S. foreign aid to Caribbean countries in a market driven approach that may avoid many of the shortcomings of traditional foreign aid, and it is a concept that deserves further research and study in order to develop specific measures. Before the U.S. government can modify the existing CBI program or develop new fiscal incentives to encourage its citizens to travel to the Caribbean, however, it must first study the effects of those provisions of the CBI that encourage tourism to the region.

The U.S. government should gather information on the extent to which U.S. citizens take advantage of these provisions, the amount of U.S. tax revenue that is forgone in the process and how much Caribbean countries are benefiting from an increased influx of U.S. citizens as a result of the CBI. Only by first understanding the magnitude of the benefit conferred on these countries as a result of the relevant CBI provisions, can the United States develop measures to use tourism to deliver foreign aid.

In addition to providing fiscal incentives for its citizens to travel to the Caribbean, there are other steps the United States can take to promote tourism in the region. It can direct its foreign aid to activities that promote an enabling environment for private sector activity in those countries by improving infrastructure (roads, power, ports, water, and sanitation) and by engaging in capacity building, which, of course, is also good for all citizens, not just those engaged in tourism related activities.

Recognizing the Stability of Tourism

The proposal places a great deal of confidence in tourism as an engine of growth for the region, but such confidence is justified. Experience has shown the power and resiliency of tourism in the Caribbean, and empirical studies are confirming this as well. As noted earlier, even the World Bank and other multilateral lending entities have begun to lend to tourism related projects in the region, thus reversing a decades old bias against such projects (World Bank 2002). In addition, the International Monetary Fund recently began advising Caribbean countries to seek greater gains from tourism as part of their development strategies.

The skepticism of relying on tourism as a development tool is based largely on the perceived unreliable and fickle nature of tourism as a source of economic growth. Many critics believe that tourism inflows are inherently unstable and too easily influenced by factors beyond the control of the host country, such as downturns in the U.S. economy, fluctuations in currency exchange rates, weather and even the tastes of tourists for whatever is the fashionable destination for that season. They also argue that tourism provides only low income jobs and fails to generate significant foreign exchange for the host country because most of the hotels are owned by foreigners and most of the products purchased by the hotels are imported (Wilkinson 1987; Pastor & Fletcher 1991; Fagence 1999; Rao 2002).

Economists refer to this inability of host countries to capture the full benefit of their tourism business as leakage. Leakage is a serious concern and is particularly evident in the countries of the Eastern

Caribbean. Its existence and deleterious effects, however, do not warrant a wholesale condemnation of tourism as an engine of economic growth. Indeed, it has been demonstrated that Caribbean countries can mitigate some of the negative effects of leakage provided their local companies that supply the large internationally owned hotels develop and maintain an adequate understanding of the needs – both qualitative and quantitative – of their customers.

International firms may bypass local suppliers if there is any doubt as to the quality or ready availability of local products, and suppliers may not get a second chance to prove themselves. Thus, local companies may be written off as inferior rather quickly. Such fears on the part of international firms are not always justified or, in some cases, these concerns could be assuaged if the local supplier were more proactive in understanding their clients. Local produce companies in Jamaica, for example, have developed strong relationships (so-called inter-industry linkages) with the large international hotels operating there and based on a solid understanding of the needs and requirements of their clients. As a result, Jamaica has done much to mitigate the effects of leakage, and there is reason to believe that suppliers in other countries can have similar success if they, too, focus on building stronger inter-industry linkages between, for example, tourism and agriculture (Torres 2003).

Another problem in many Caribbean countries is that local tourism firms have been unable to undertake the requisite product development and upgrading that is necessary to maintain their competitiveness because they lack access to financing. The local tourism sector is largely fragmented, and small to medium sized enterprises cannot compete against the large international chains in terms of scale or cost (Croes 2006).

Despite these shortcomings of leakage and sector fragmentation, however, there is much empirical support of the power of tourism as an engine of economic growth. One study has shown that countries with a population of less than one million and with a prominent presence of the tourism sector (i.e., where the share of tourism to GDP is greater than 10%) experienced a real per capita GDP annual growth of 2.1 % (Croes 2005). This growth rate exceeds the world average rate of 1.3 % per year and the developed countries' rate of 1% per year. The growth rate of Caribbean countries with populations over one million is 1.9% (see Table 3).

According to the same study, an increase of 1% in a country's tourism specialization index is associated with an increase of 2.2% in the country's growth rate of real GDP per capita. This finding confirms earlier studies of Lanza & Pigliaru 2000; Balaguer & Cantavella-Jorda 2002; Algieri 2006)).

These studies suggest that tourism can play a positive role in promoting economic growth in host countries, and tourism is the single largest earner of foreign exchange in 16 of the 30 countries in the Caribbean. One in every seven jobs in the Caribbean is supported by tourism, and by 2012 it is expected to increase to one in every six jobs and provide for a total of nearly 3 million jobs (Croes 2006). The World Travel and Tourism Council (WTTC) estimates that, by 2012, direct and indirect economic activity in the Caribbean from tourism will increase to nearly \$75 billion in sales and will generate foreign exchange receipts in excess of \$40 billion.

Table 3. Average Real per capita GDP growth, 1986 - 2003

World	1.3%
Developed Countries *	1.0%
Caribbean > 1 million **	1.9%
Caribbean < 1 million ** *	1.8%
Caribbean < 1 million and tourism prominence	2.1%
Aruba < 100,000 and tourism prominence	7.0%

Source: Croes, 2005

* Calculation has been made over the period 1989 - 2001.

** This group of countries consists of Cuba, the Dominican Republic, Haiti, Jamaica and Trinidad and Tobago.

*** This group of countries comprises Aruba, Bahamas, Barbados, Dominica, Netherlands Antilles and St. Lucia.

According to the World Tourism Organization (WTO), the Caribbean is the second largest recipient of inbound tourism and international receipts in the entire Americas after North America (the United States, Mexico and Canada combined), and thus receives more international tourism than all of South America.

(Table 4). Caribbean states are small in population, land area and total income and has a long history in tourism development (Schwartz 1999) generating 3.6 percent of the world's international tourism receipts and attracting nearly 2.4 percent of the total global arrivals. The Caribbean was sixth in the global ranking behind the United States, France, Italy, Spain and the United Kingdom (WTO 2002). Furthermore, in 2003 the Caribbean was the largest regional supplier of tourism for developing countries worldwide.

Although tourism's contribution to Caribbean economies does face challenges from leakage and the occasional declines in demand from exogenous events, such as 9/11 or hurricanes, research shows that revenues from tourism are stable and are two to five times more reliable as a source of revenues than the sale of goods, such as agricultural and mineral commodities (Maloney and Rojas 2001). Recent studies of the smaller countries in the Caribbean also have shown that tourism is a stable growth enhancing policy and that specializing in tourism as a development strategy is a sound option for these countries (Modeste 1995; Easterly & Kraay 2000; Lanza & Pigliaru 2000; Grassl 2003; Jayawardena & Ramajeasingh 2003; Durbary 2004; Algieri 2006).

Table 4 Destination of Tourist Arrivals and Receipts, 2004

Country	Arrivals (thousand)	Receipts (US\$ billion)	Receipts Market share in the region (%)	
			1995	2004
North America	85,846	96,077	78.7	74.5
Mexico	20,618	10,753	6.3	8.2
Caribbean	18,187	19,154	12.4	14.5
South America	15,953	10,555	7.3	8.0
Central America	5,771	3,895	1.5	3.0
USA	46,077	74,481	64.4	56.6

Source: World Tourism Organization

Indeed, tourism may be the only policy option for some of these countries to overcome the structural constraints imposed by the small size of their economies. For example, in many small economies, there is simply insufficient market demand for a good or service to enable local firms to achieve any efficiencies or economies of scale. But, in the case of tourism, the demand for the product of tourism is essentially imported into the small economy and thus a small island of 100,000 inhabitants may see its temporary population (and market size) increase up to ten times that amount. Moreover, the temporary population of tourists typically will have an extremely high purchasing power. Therefore, a local firm in the tourism sector will have a much larger market for its goods and services and can begin to achieve economies of scale and efficiencies (Croes 2006).

It is important to emphasize that increasing a country's economic growth rate is not simply an abstract concept or goal. Research has demonstrated that economic growth correlates with poverty reduction by a ratio of one to one, i.e., an additional percentage point of per capita growth will cause a one percent increase in the income of those living in poverty, which, in turn, will lead to a decline in the number of people living below the poverty line (Easterly & Kraay 2001).

Another benefit to a country that expands its tourism is that revenues expand and the economies grow, and the government, of course, will collect more taxes. A conservative estimate of a combined tax rate of 20 percent applied to these direct revenues (in the form of a room tax, airport fee, income tax, sales tax, and profit tax) would bring in significant revenues. For example, if the Caribbean region as a whole were to increase its tourism receipts by 4.5%, this increase would generate an additional \$1.2 billion in taxable economic activity. Based on an overall tax rate of 20 percent as mentioned above, the authors estimated that governments of Caribbean countries would collect an additional \$240 million in taxes annually – more than the total amount of U.S. aid to the region in 2003. This example is based only on the direct revenues from tourism and does not include the multiplier effect as the foreign exchange from tourism circulates further through the economy and generates even more tax revenues.

Conclusions and Implications

Tourism has proven to be an important vehicle for the growth of many Caribbean countries, and therefore

it would behoove U.S. policymakers to consider foreign aid initiatives which acknowledge this fact and attempt to develop aid programs that expand tourism in the Caribbean. The United States attempted to achieve this by incorporating tax breaks in the CBI legislation for Americans who attend conventions and conferences in designated CBI countries. The U.S. Congress had the right idea, but it has failed to follow through on this initiative and does not even monitor the impact of the CBI as it relates to tourism. The first step in reviving and improving this effort should include measuring the effectiveness of these tourism provisions.

Of course, fiscal incentives to travel to the Caribbean are not the entire answer to improving the delivery of foreign aid to the region, but they do suggest the potential for developing other foreign aid initiatives that rely on tourism, market forces and individual choice to direct the flow of aid most effectively. Such initiatives cannot replace aid that is targeted on specific problems such as AIDS, hurricane relief or eradicating childhood diseases. In addition, a country such as Haiti obviously will need substantial improvements in its infrastructure and security conditions before it can be attractive to tourists as it was in the 1970s and 1980s.

Nonetheless, the United States should examine how tourism can be used in this regard, and there are compelling reasons for trying new approaches in delivering aid to its neighbors in the Caribbean. Of course, economic aid cannot be replaced entirely by a market-based approach relying on tourism, but certainly there is a place for it as part of an overall aid package. U.S. policymakers already know what works in most of the economies in those countries – tourism – and they should search for ways to improve the delivery of foreign aid that utilizes the strength and stability of tourism as an engine of economic growth. The United States has vital security and economic interests in the region which should be protected, and time is running out for many Caribbean countries as traditional mainstays of their economies, such as offshore financial services and the export of commodities, disappear.

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